MOODY'S
INVESTORS SERVICE

CREDIT OPINION
25 March 2019

Update

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RATINGS

Ageas SA/NV

Domicile	BRUSSELS, Belgium
Long Term Rating	A3
Type	LT Issuer Rating - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Ageas SA/NV

Update following recent upgrade

Summary

Ageas SA/NV (Ageas, formerly known as Fortis SA/NV) is the holding company of the Ageas Group whose main assets are (i) 75% of AG Insurance (Insurance Financial Strength Rating: A2 stable), leading insurer in Belgium; (ii) Ageas UK (unrated), a British non-life insurer; (iii) insurance activities in Continental Europe, most notably operations in Portugal (51% of MillenniumBCP Ageas along with non-life operations of Ageas Seguros) and France; and (iv) insurance activities in Asia, which are non-controlled and for the most part jointly operated with local banking operators.

The credit profile of Ageas (rated A3 for long-term issuer rating) is supported by the combined financial strength and dividend capacity of Ageas' Group operating insurance companies, the subordination of the holding company's creditors and the sound capital and liquidity position of the company. As of year-end 2018 the latter reported an equity position of €9.4 billion (excluding non-controlling interests) and a liquidity position of €1.7 billion. This liquidity includes a ring-fenced amount of €0.7 billion in relation to the Fortis settlement agreement (see below).

In January 2019, Moody's upgraded Ageas issuer rating by two notches to A3 from Baa2 with a stable outlook. This rating action reflects (i) the resolution of legacy issues, primarily the finalisation of the Fortis settlement agreement; this removes the significant uncertainty related to legal risks associated with the break-up of the Fortis group, whose assets and liabilities Ageas partly inherited; and (ii) the change in group structure whereby the holding company Ageas will operate as the group internal reinsurer, which will diversify the cash flows available to the holding. In line with Moody's standard notching for primary insurance companies, Ageas' issuer rating is now one notch below the A2 IFSR of AG Insurance, its main operating subsidiary.

Credit strengths

The main credit strengths of Ageas are:

» The 75% ownership in AG Insurance via the intermediate holding Ageas Insurance International N.V.

» Strong cash position along with the absence of senior debt at the holding company level

» Good capitalisation levels, with Solvency II coverage ratio at 216% in 2018 (consolidated level as reported to the regulator under the approved partial internal model)

Credit challenges

The main challenge of Ageas going forward is:

» To maintain a steady and sustainable level of profitability in its main operating entities

Rating outlook

The outlook on Ageas is stable, reflecting the resolution of legacy issues related to the Fortis settlement agreement and the stable outlook of AG Insurance, its main operating entity.

Factors that could lead to an upgrade

» Material increase in size and diversification of cash flows available to Ageas SA/NV and,

» Meaningful improvement of the financial strength of AG Insurance

Factors that could lead to a downgrade

» Loss of diversity of cash flows available to the parent company in case the latter stopped underwriting reinsurance business

» Sustained rise in adjusted financial leverage above 35%

» Consistent decline in Solvency II coverage below 130%

» Deterioration of the financial strength of AG Insurance

Key indicators

Exhibit 1

Ageas SA/NV [1][2]	2017	2016	2015	2014	2013
As Reported (Euro Millions)					
Total Assets	103,341	104,294	104,486	103,559	94,783
Total Shareholders' Equity	10,162	10,205	11,975	10,912	9,330
Net income (loss) attributable to common shareholders	623	27	770	476	569
Gross Premiums Written	8,445	9,277	9,362	9,258	8,839
Net Premiums Written	8,216	9,016	9,066	8,904	8,503
Moody's Adjusted Ratios					
Goodwill & Intangibles % Shareholders' Equity	13.8%	15.1%	18.7%	19.5%	22.6%
Financial Leverage	25.4%	27.3%	23.8%	25.2%	25.0%
Total Leverage	39.0%	41.4%	36.6%	38.0%	39.9%
Earnings Coverage (1 yr.)	10.4x	4.2x	9.9x	7.6x	6.6x

[1] Information based on IFRS financial statements as of Fiscal YE December 31
[2] Certain items may haven been relabeled and/or reclassified for global consistency
Source: Ageas SA/NV, Moody's Investors Service

Capital structure and liquidity

The main outstanding financial debts within Ageas Group as at year-end 2018 are:

» €1.25 billion of deeply subordinated securities redeemable in shares only (FRESH) issued by Ageasfinlux S.A. (Backed Jr. Subordinate: Baa3(hyb) stable) in 2002

» €0.5 billion ($550 million) of deeply subordinated issued by AG Insurance in March 2013 to be called in March 2019

» €0.1 billion of Tier 2 dated securities issued by AG Insurance in December 2013 (part of €450 million issuance)

» €0.8 billion of debt due to banks, mainly related to AG Insurance's real estate companies (as of year-end 2017, no updated figures currently available)

» €0.4 billion of Tier 2 issued by AG Insurance in March 2015

Liquid resources held at the holding company (consisting of the sum of net cash and liquid assets) were around €1.7 billion at year-end 2018. This was modestly below the €1.8 billion in 2017, primarily due to the ongoing share buyback programme consisting of €200 million approved until August 2019. We note that the current holding company liquidity position includes €0.7 billion which have been ring-fenced to fund the settlement agreement related to the Fortis settlement and which will decrease going forward through payments to claimants.

As of year-end 2017 the adjusted financial leverage for the Group was 25.4% (2016: 27.3%) and total leverage, excluding hybrids' equity credit, had also decreased to 39.0% (2016: 41.4%). Decreases in leases obligations and debt due to banks for AG Insurance's real estate companies versus prior year primarily explain, respectively, the reduction in adjusted leverage and total leverage.

However, our calculations included a €1.45 billion IFRS financial liability related to a put option whereby BNP Paribas Fortis SA/NV (BNPPF A1 stable; A2 stable; baa1)[1] was entitled to sell to Ageas the minority 25% stake it owned in AG Insurance in the six-month period ending on 30 June 2018. Following the removal of this liability in light of BNPPF's decision not to exercise the put option, we now estimate that on a pro-forma basis Ageas' adjusted financial leverage decreased to c.16% (and total leverage to c.31%) at year-end 2018.

Ageas' credit profile is also supported by good capitalisation, with a reported Solvency II coverage ratio of 216% (under the approved partial internal model) at end-2018. Ageas' operating performance in 2018 was also strong, with a 2018 net income of €809 million,

a group combined ratio of 94.3%, as such meeting 5 out of 6 of their central ambitions as published in the 2018 plan from 2015[2]. The group benefits from a focus on retail customers as well as from material diversification with business written in Life (71%) and Non-Life (29%) via meaningful operations in Belgium, Portugal, UK and France in addition to joint ventures in Turkey and Asia.

In July 2018 Ageas received regulatory approval to operate reinsurance activities, which will primarily consist of intra-group reinsurance. This has enhanced the fungibility of capital within the Group and its Solvency II coverage ratio which has benefitted from an increase by 5 percentage points.

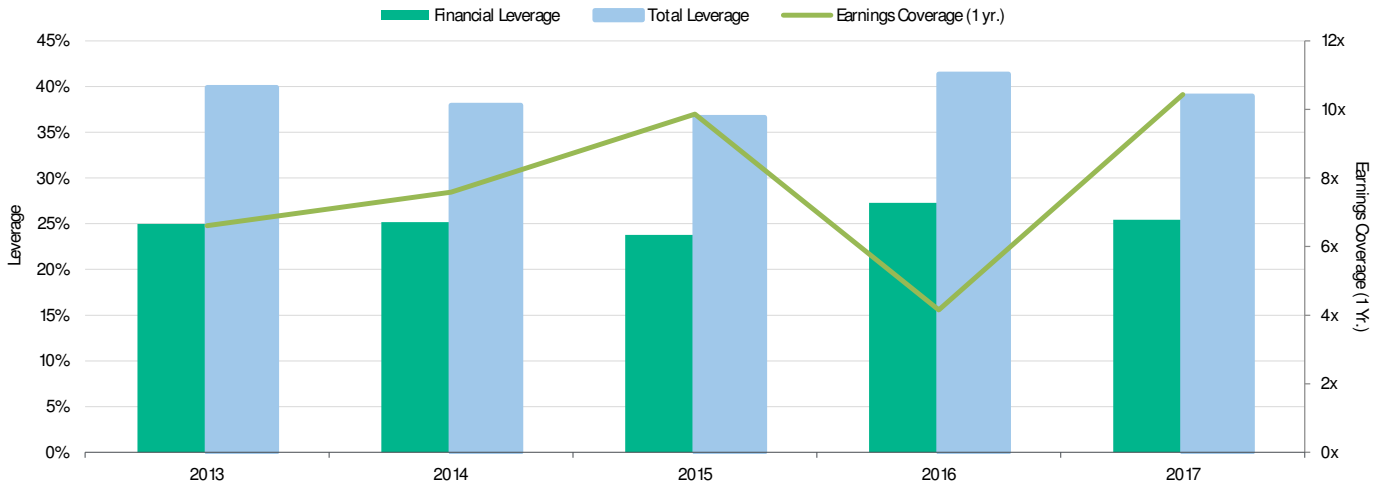
In spite of a lower financial leverage, Ageas' financial flexibility remains affected by off-balance sheet commitments related to hybrid debt instruments issued by former group entities. In fact Ageas' holding company remains liable to support the interest payments on €0.95 billion subordinated debt (CASHES) issued by previous group member Fortis Bank (now BNPPF) in case the bank is not able to service this debt due to solvency problems. A number of 3,791 CASHES remained outstanding at year-end 2018.

Structural considerations

The notching differential between the A2 IFSR of AG Insurance (Ageas' main operating subsidiary) and the A3 Long Term issuer rating at Ageas SA/NV is one notch. This is one notch narrower than Moody's standard practice for an insurance group domiciled and operating in jurisdictions where group-wide regulation is in effect, reflecting the dual operating and holding nature of the parent company. In line with Moody's standard notching for primary insurance companies, Ageas' issuer rating is now one notch below the A2 IFSR of AG Insurance.

The FRESH securities are rated three notches below the long term issuer rating. This is one notch wider than the standard notching we have for preferred securities with a cumulative coupon skip mechanism. This additional notching reflects the higher risk of coupon deferral, as these securities allow for an Alternative Coupon Settlement Method ("ACSM") when the annual dividend yield on the Ageas share is below 0.5%.

Exhibit 2
Financial Flexibility



Source: Ageas SA/NV, Moody's Investors Service

Ratings

Exhibit 3

Category	Moody's Rating
AGEAS SA/NV	
Rating Outlook	STA
LT Issuer Rating	A3
AGEASFINLUX S.A.	
Rating Outlook	STA
BACKED Junior Subordinate	Baa3 (hyb)

Source: Moody's Investors Service

Endnotes

1 The ratings shown are the Long-term deposit rating, Senior unsecured rating the Baseline Credit Assessment (BCA)

2 The Group missed the Life operating margin target, reporting a margin of 25bps at year-end 2018, far from the expected 85-90bps in guaranteed and 40-45bps in unit-linked.

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